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Topic: Hop Coffee Shop

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Subject: The Hop Marketing Order

Message: John I. Haas, Inc.
about
THE HOP MARKETING ORDER
By Henry von Eichel

There comes a time in the pursuit of a solution of a difficult issue where debate and process actually hinders the solution.

We have followed the debate about the Hop Marketing Order from a distance, wanting to avoid to stir up the kind of emotions which surrounded both the creation and the demise of the last Hop Marketing Order in the United States. We are acutely aware of the weight of John I. Haas' vote in any potential final ballot for or against a marketing order.

We felt that a debate about the state of the hop market amongst the U.S. growers would be useful to face up to the stark realities, which are:

Demand for our product worldwide is and will continue to decline in the foreseeable future.

There exists a large structural surplus of alpha in the world, much of it in the U.S.

Germany and China has to date varieties that are in terms of alpha yield/total yield similar to the U.S. high alpha varieties. Germany's are well accepted if not preferred by many brewers. Although the current $/Euro exchange rates will bring back some of the lost demand to the U.S., we have to acknowledge that the present level of alpha production in the U.S. is likely to exceed needs and depress prices to levels well below cash cost in the coming years unless an acreage adjustment is made. Events of the short 2003 crop in Europe will only be a short lived one year event if basics are not changed.

A marketing order is an instrument primarily

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directed at bringing demand and supply into perceived balance to raise prices to at least a level of cost plus some return to the grower.

However, if we are honest to ourselves, there is a sub-surface debate and purpose to the marketing order, which almost overshadows the primary purpose. We should call it the exit strategy issue and connected closely to it is the issue of base-allotment value. Since this topic is not part of the USDA guidelines, it is like an unmentioned guest at the table when the marketing order is discussed. In our opinion, it is precisely this issue that ironically prevented the further reduction in acreage in 2002 and 2001. We venture to guess that the much needed further adjustment for crop 2004 will also be prevented by this issue.

We believe most U.S. growers intellectually accept the need for acreage reduction but the potential of gaining valuable of base allotment which could be sold or rented out, prevents them from either giving up to grow hops or to reduce acreage.

There is also an almost romantic argument that the majority of the industry should believe in preserving a maximum number of growing entities not unlike a protected species. This argument hopefully is to be accepted by our ultimate customers, the brewers. We believe it isn't accepted and it won't be as the brewers worldwide are consolidating themselves. Brewers will accept markets in balance and in resulting higher prices but not an artificially produced hop quota from the U.S. Such a managed supply situation would in fact drive them to areas with no restrictions and plentiful reliable supply. Approx. 70% of our markets are outside the U.S. 60% of the world's alpha is produced outside the U.S. Any attempt to manage, i.e. curtail supplies would lead to a likely permanent shift towards other countries while giving only very temporary relief to U.S. growers.

John I. Haas, Inc. and the Barth Group as the largest U.S. grower have reduced its acreage by 2,130 acres over the last three years. Sadly, our actions were misread by most growers as a signal to maintain their acreage or in some cases even increase the acreage. A recovery of world prices would have already occurred by 2002 and 2003 if other U.S. growers would have taken similar acreage reductions as we did.

We strongly recommend to end the debate soonest, accept that a marketing order is not the solution, reduce the acreage for crop 2004 by at least 4,000 acres in high alpha varieties and thus, bring the market back into a balance. This means to accept that we will be a smaller industry with fewer participants operating on a smaller acreage base. The weather related crop reduction in Europe will help the marketing of U.S. hops from crop 2003 at better prices and may provide some growers the financial incentive to exit on a high note. But: Only a clear signal of acreage reduction for crop 2004 will turn the 2003 recovery into long term sustainable better prices. The quicker this debate and the resulting insecurity about the future structure ends, the quicker the industry will recover. I hope that we have made a contribution to find the right individual decision by making our position unequivocally clear.

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